

Message Text

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PAGE 01 MONTEV 02749 111845Z

46

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SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF.: STATE 165996

1. FOLLOWING IS INVESTMENT CLIMATE NARRATIVE STATEMENT.

BEGIN TEXT:

URUGUAY

WITH THE ADOPTION, IN 1974, OF LAWS TO PROMOTE FOREIGN INVESTMENT AND INDUSTRIAL DEVELOPMENT, A MODERN POLICY AND LEGAL STRUCTURE DESIGNED TO ATTRACT FOREIGN CAPITAL WAS ESTABLISHED. THE FOREIGN INVESTMENT LAW GUARANTEES REMITTANCES OF PROFITS AND THE INDUSTRIAL PROMOTION LAW GIVES TAX AND OTHER INCENTIVES TO DEVELOPMENT PROPOSALS WHICH THE GOVERNMENT CONSIDERS "OF NATIONAL INTEREST". URUGUAY IS NOT A PARTY TO AN OPIC AGREEMENT ALTHOUGH THIS IS BEING CONSIDERED BY THE GOVERNMENT.

THE GREATEST DISINCENTIVE TO INVESTMENT, FOREIGN OR DOMESTIC, HAS BEEN ECONOMIC STAGNATION THROUGHOUT MOST OF THE PAST TWO DECADES WHICH HAS REDUCED PROFITS AND DECAPITALIZED A LARGE NUMBER OF INDUSTRIES. HOWEVER, SOME LOCAL AND FOREIGN-OWNED BUSINESSES

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 MONTEV 02749 111845Z

HAVE PROSPERED EVEN IN THIS PERIOD THROUGH MANAGERIAL ABILITY.

A FUNDAMENTAL CHANGE IN ECONOMIC PROSPECTS IS BEING BROUGHT ABOUT BY A STEADY AND SEEMINGLY DETERMINED EFFORT TO REFORM THE COMBERSOME ECONOMIC SYSTEM URUGUAY HAS RELIED ON TO PROTECT LOCAL INDUSTRY AND CONSERVE SCARCE FOREIGN EXCHANGE. INEXPERIENCE, SEVERE ECONOMIC PROBLEMS (MANY DUE TO EXTERNAL FACTORS SUCH AS PETROLEUM PRICES AND THE DISRUPTION OF THE INTERNATIONAL MEAT MARKET) AND EXCESSIVE STATE BUREAUCRACY AND RED TAPE HAVE IMPEDED PROGRESS. A HIGH RATE OF INFLATION CONTINUES TO MAKE INVESTMENT PLANNING HAZARDOUS. STILL, IN ADDITION TO PROVIDING AN ATTRACTIVE INVESTMENT CLIMATE, IMPORTANT MEASURES HAVE BEEN TAKEN SINCE LATE 1973. THESE INCLUDE ESTABLISHING MORE REALISTIC EXCHANGE RATES, IMPROVED MANAGEMENT OF MANY STATE AGENCIES AND OFFICES AND ABOLITION OF THE IMPORT QUOTA SYSTEM.

AN UNECONOMIC POLICY OF INDUSTRIALIZATION THROUGH IMPORT SUBSTITUTION, WHICH HAS BEEN RESPONSIBLE FOR MANY OF URUGUAY'S ECONOMIC PROBLEMS, IS BEING PROGRESSIVELY DISCARDED IN FAVOR OF THE PROMOTING OF EXPORT INDUSTRIES BASED ON DOMESTIC RAW MATERIALS. THERE ARE NO REQUIREMENTS FOR JOINT VENTURES. A NUMBER OF IMPORTANT INTERNATIONALLY FINANCED DEVELOPMENT PROJECTS ARE PLANNED OR UNDERWAY AND AN AMERICAN FIRM WILL BEGIN EXPLORING FOR PETROLEUM IN THE NEAR FUTURE. FOREIGN INVESTMENT IS WELCOME IN EXPORT INDUSTRIES BASED ON DOMESTIC RAW MATERIALS, INCLUDING MEAT, LEATHER GOODS, FISH, WOOL, QUARRY PRODUCTS AND FRUITS AND VEGETABLES. TOGETHER WITH THE INFRASTRUCTURE PROJECTS, THE GOVERNMENT'S POLICY OF ENCOURAGING PRIVATE INVESTMENT AND INITIATIVE, IF ENERGETICALLY APPLIED, SHOULD SUCCEED IN REINVIGORATING THE ECONOMY.

END TEXT.

2. NO PUBLISHED FIGURES ARE AVAILABLE FOR DEVELOPING FOREIGN INVESTMENT STATISTICS, IN PART BECAUSE UNTIL 1974 THERE WERE NO PROVISIONS FOR TREATING FOREIGN CAPITAL SEPARATELY FROM DOMESTIC. THE EMBASSY ESTIMATES THAT:

A. DIRECT FOREIGN INVESTMENT FROM THE US AT THE END OF 1974 PROBABLY TOTALLED OVER \$100 MILLION INCLUDING:

- MINING AND SMELTING: \$20 MILLION (CEMENT PRODUCTION)
- PETROLEUM: \$4 MILLION (DISTRIBUTORSHIPS ONLY)
- MANUFACTURING: \$60 MILLION
- THE REMAINDER IS ACCOUNTED FOR BY TWO BANKS AND SMALL SALES

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PAGE 03 MONTEV 02749 111845Z

AND SERVICE OFFICES.

B. DIRECT INVESTMENT BY ALL OTHER COUNTRIES. NO INVESTMENT DATA IS AVAILABLE. THREE LARGEST INVESTORS BY COUNTRY ARE PROBABLY ARGENTINA, U.S., AND BRAZIL. ARGENTINE AND BRAZILIAN INVESTMENTS ARE PRIMARILY REAL ESTATE. ENGLAND IS PROBABLY FOURTH LARGEST.

C. FUNDS HELD ABROAD BY URUGUAYANS HAVE BEEN UNRELIABLY ESTIMATED AS HIGH AS \$400 MILLION, LARGELY BY INDIVIDUALS IN BANK DEPOSITS, INSURANCE POLICIES, STOCKS AND BONDS.

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